

Message Text

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ACTION EB-08

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UNCLAS NEW DELHI 12325

FROM AGATT FOR DIRECTOR HORTICULTURAL AND
TROPICAL PRODUCTS DIV.

E.O. 11652: N/A
TAGS: EAGR
SUBJECT: SUGAR DECONTROL

THE GOI HAS DECIDED TO DECONTROL SUGAR EFFECTIVE AUG
16, 1978 THEREBY ELIMINATING ALL CONTROLS ON PRICES,
MOVEMENT AND DUAL PRICING THAT HAVE EXISTED SINCE 1967.
THE MINISTER OF AGRICULTURE AND IRRIGATION ANNOUNCED IN
PARLIAMENT AUG 10 THAT WHILE CONTROLS WERE NECESSARY
UNDER SCARCITY CONDITIONS, THIS SITUATION NO LONGER
PREVAILS. HE EXPRESSED HOPE THE NEW POLICY WOULD
STIMULATE DOMESTIC CONSUMPTION.

REVISION OF THE SUGAR POLICY OCCURRED BECAUSE OF
GREATLY EXPANDED PRODUCTION, HIGH LEVEL OF
STOCKS, THE NEED TO MAXIMIZE DOMESTIC CONSUMPTION
(ALTHOUGH UP 22 PERCENT DURING LAST YEAR) AND TO GIVE
CONSUMERS LOWER PRICES IN THE WAKE OF RECORD PRODUCTION.
SUGAR OUTTURN DURING 1977-78 (OCTOBER-SEPTEMBER) IS ESTIMATED
AT ABOUT 6.5 MILLION METRIC TONS WHICH WOULD BE
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AN INCREASE OF ABOUT 34 PERCENT OVER LAST YEAR'S
RECORD 4.84 MILLION METRIC TONS.

THE STATUTORY MINIMUM PRICE PAYABLE FOR SUGARCANE FOR
THE NEXT SEASON IS TO BE RAISED TO RS. 10/PER QUINTAL
LINKED TO 8.5 PERCENT RECOVERY VIS A VIS THE PRESENT
LEVEL OF RS. 8.50 PER QUINTAL LINKED TO 8.5 PERCENT

RECOVERY. THE CURRENT EXCISE DUTY ON LEVY SUGAR
(11 PERCENT AD VALOREM) AND FREE SALE SUGAR (28.5 PERCENT AD VALOREM)

WOULD BE AVERAGED OUT AND IMPOSED UPON DISCONTINUANCE OF THE DUAL
PRICING SYSTEM.

THE MINISTER STATED RELIEF IS TO BE PROVIDED TO UNITS
WHICH HAVE CREATED OR EXPANDED THEIR CAPACITY
IN RECENT YEARS AND THOSE WHICH MODERNIZED
EQUIPMENT. INCENTIVES ARE TO BE GIVEN TO SUGAR FACTORIES FOR EARLY
AND LATE CRUSHING.

TO MAINTAIN STABILITY IN THE MARKET PLACE, A CLOSE WATCH
IS TO BE KEPT ON PRODUCTION, AVAILABILITY AND PRICES.
SHOULD PRICES RISE ABOVE REASONABLE LEVELS THE
GOVERNMENT WILL TAKE APPROPRIATE MEASURES, THE MINISTER
SAID.

COMMENT: THE GOI ACTION TO DECONTROL SUGAR AND
ABOLISH THE DUAL PRICING SYSTEM HAS RECEIVED MIXED
REACTION. INDUSTRY HAS GENERALLY WELCOMED
THE DECISION SINCE IT IS NOW NO LONGER
UNDER OBLIGATION TO SELL 65 PERCENT OF PRODUCTION
AT CONTROLLED PRICES. YET, SOME OBSERVERS HAVE
EXPRESSED FEARS THAT POLICY COULD HURT LOWER INCOME CONSUMERS AND
CANE GROWERS. FORMAL ASSURANCE THAT PRICES WILL BE HELD AT
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REASONABLE LEVELS RAISED QUESTION AS TO HOW
THIS WOULD BE ENFORCED GIVEN PREVIOUS RECORD OF SUGAR
MANUFACTURERS FOR CREATING ARTIFICIAL SHORTAGES THROUGH
WITHHOLDING STOCKS AND CONSEQUENTLY ASSURING
THEMSELVES HIGHER PROFIT MARGINS. ALTHOUGH THE GOVERNMENT HOPES FOR
GREATER UTILIZATION OF EXPANDED DOMESTIC SUPPLIES
THE NEW POLICY MIGHT LEAD TO A DECLINE IN PER CAPITA
CONSUMPTION SHOULD CONSUMER PRICES TURN UPWARD AND
THEREBY NEGATE THE OBJECTIVE.
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